Milwaukee County
Employees' Retirement System
Courthouse, Room 210-C
901 N. 9th Street
Milwaukee, Wisconsin 53233

EMPLOYEES' RETIREMENT SYSTEM

of the County of Milwaukee

2007 Annual Report of the Pension Board

as of December 31, 2007

901 North 9th Street, Room 210-C
Milwaukee, Wisconsin 53233
Telephone: 278-4207

EMPLOYEE'S RETIREMENT SYSTEM

Milwaukee County

July 16, 2008

Retirement System Members:

We are pleased to present the 2007 Annual Report of your Pension Board. As can be seen, the Retirement System experienced another year with positive results. The retirement system experienced an increase in net assets available for pension benefits of $8.3 million as contributions and net investment income exceeded pension benefits and administrative expenses. Total assets at the end of the year exceeded $1.66 billion. For further detailed information regarding the performance of the pension fund, please see the management discussion, financial statements and footnotes that follow.

The description of the Employees' Retirement System, included in this report, highlights major plan provisions. County ordinances, labor agreements, Pension Board rules and the Governmental Accounting Standards Board prevail over the contents of this report. If you have any questions, please call the Retirement System office at 278-4145.

Members considering retirement within the next few years are reminded to watch for announcements from the County for retirement information programs. Please call the Retirement Division at 278-4207 for further information regarding these programs. If you are interested in meeting with a retirement counselor to discuss retirement, please schedule an appointment by calling 278-2087.

Several options are available to members who retire or otherwise leave County service. Before terminating employment, you should become fully informed of the various opportunities so you can make the best choice for your situation.

Each year, Milwaukee County distributes benefit statements reflecting balances as of the end of the previous year. Remember to keep your beneficiary designations current by informing the Retirement System Office of any changes. Retired members should also notify the Retirement System Office in writing of any changes in residence or address so that your benefit payments and year-end 1099R statements are properly mailed.

The Pension Board is requiring all new retired members to sign up for direct deposit of their benefits. Please join with us in this effort to reduce costs and increase the efficiencies of the delivery of your retirement benefits.

Sincerely,

The Pension Board

COURTHOUSE, ROOM 210-C • 901 NORTH 9TH STREET • MILWAUKEE, WI 53233 • (414) 278-4207

Virchow Krause & company

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Members of the Pension
Board of the Employees' Retirement
System of the County of Milwaukee:

We have audited the accompanying statements of plan net assets of the Employees' Retirement System of the County of Milwaukee (the "Retirement System") as of December 31, 2007 and 2006, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Retirement System as of December 31, 2007 and 2006, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 and 4 and the schedules of funding progress, employee contributions, and notes to required supplementary information on pages 16 – 17 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the 2007 and 2006 information which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The ten-year historical trend and related information on pages 18 - 19 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Virchow, Krause & Company, LLP.

Milwaukee, Wisconsin
August 7, 2008

115 South 84th Street. Suite 400 . Milwaukee, WI 53214 . Tel 414.777.5500 . Fax 414.777.5555 . www.virchowkrause.com

Virchow, Krause" Company, LLP

Certified Public Accountants & Consultants. An Independent Member of Baker Tilly International

Management's Discussion and Analysis
(In Thousands of Dollars)

Management is please to provide this overview and analysis of the financial activities of the Employees' Retirement System of the County of Milwaukee ("ERS", or the "Retirement System") for the year ended December 31, 2007.

FINANCIAL HIGHLIGHTS

- Plan net assets for ERS increased $8,315 as of 12/31/07 vs. 12/31/06 and $98,418 as of 12/31/06 vs. 12/31/05. The increases were due to the continued improvement in market conditions. The market, however, has experienced a slow down during the last two months of 2007 that has continued into the early months of 2008.
- Cash and short-term investments fluctuate considerably from year to year. The amounts for 2007 and 2006 are near the median while the amount for 2005 was near the lower end of normal.
- Receivables decreased ($10,150) as of 12/31/07 vs. 12/31/06 due primarily to a ($31,630) decrease in sales of securities pending settlement offset by a $21,929 increase in pension contributions receivable. Receivables increased $21,193 as of 12/31/06 vs. 12/31/05 due primarily to a $30,813 increase in sales of securities pending settlement offset by decreases of ($7,784) in pension contributions receivable and ($2,284) in foreign exchange contracts receivable.
- Investments, at fair value, increased $18,229 as of 12/31/07 vs. 12/31/06 and $61,264 as of 12/31/06 vs. 12/31/05 primarily as a result of the improvement in the bond market.
- Other assets decreased ($46,816) as of 12/31/07 vs. 12/31/06 and increased $29,008 as of 12/31/06 vs. 12/31/05 due largely to a decrease in securities lending - collateral of ($48,129) as of 12/31/07 vs. 12/31/06 and an increase of $26,722 as of 12/31/06 vs. 12/31/05. In addition there was an increase of $1,313 and $2,286 for funds spent on the development and implementation of a new pension software system as of 12/31/07 and 12/31/06, respectively. It is anticipated that the new software will become operational in late 2008 or early 2009.
- Other liabilities increased $705 as of 12/31/07 vs. 12/31/06 primarily due to an increase in purchases of securities pending settlement. Other liabilities decreased ($4,716) as of 12/31/06 vs. 12/31/05 primarily due to decreases of ($2,965) in purchases of securities pending settlement and ($2,293) in foreign exchange contracts payable. In addition there were small fluctuations in miscellaneous payables and the amount due the OBRA retirement plan.
- The rate of return on total assets of the pension fund, net of investment expenses, was 6.3%, 13.5% and 8.3% for the years ended December 31, 2007, 2006 and 2005, respectively
- Total additions decreased ($79,887) in 2007 vs. 2006 and increased $71,319 in 2006 vs. 2005. The 2007 decrease was due primarily to a ($101,543) decrease in investment income offset by a $21,656 increase in employer and employee contributions. The 2006 increase was due primarily to a $79,114 increase in investment income offset by a ($7,795) decrease in employer and employee contributions. The increase or decrease in investment income was due almost entirely to fluctuations in the net appreciation in fair value of the investments.
- Benefit payments increased $9,261 in 2007 vs. 2006 and decreased ($17,577) in 2006 vs. 2005. The 2007 increase was due to an increase of $4,298 in monthly pension benefits and $4,963 in lump-sum payments. The decrease in 2006 was due to a $2,586 increase in monthly pension benefits and a ($20,163) decrease in lump-sum payments.
- As of December 31, 2007, 2006 and 2005, the funding ratio (actuarial value of the assets divided by the actuarial accrued liability) for the plan was 80.4%, 79.0% and 76.2%, respectively. The funding ratio gives an indication of how well the liabilities of the pension plan are funded. The higher the funding ratio the better the plan is funded. The ratio increases due to investment gains and pension contributions and declines due to investment losses, increases in the plan benefits, large pension payouts and underpayment of pension annual required contributions.

The Board of Trustees of ERS has the responsibility for the overall performance of the Pension Fund. The Board's principal means to achieve this goal is by (a) determining an asset allocation policy which is expected to provide the long-term rate of return sufficient to fund benefits while minimizing the risk of loss through diversification (b) selecting an appropriate number of investment managers to manage the assets within an asset class and monitoring the performance of such investment managers relative to specified benchmarks, and (c) implementing cost containment measures intended to reduce the investment fees and costs associated with investing the Fund's assets. The Board is the fiduciary of the Fund and is responsible for carrying out the investment functions solely in the interest of the members and benefit recipients.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Retirement System's financial statements. The financial section is comprised of four components: (1) financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Financial Statements. There are two financial statements presented for the plan. The Statement of Plan Net Assets as of December 31, 2007 and 2006 indicates the net assets available to pay future benefits and gives a snapshot of the financial assets available for pension benefits at a particular point in time. The Statement of Changes in Net Plan Assets for the year ended December 31, 2007 and 2006 provides a view of the additions and deductions to the plan for the years presented.

Notes to financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

CONSULTANTS

as of December 31, 2007

Legal Advisors:

Milwaukee County
Corporation Counsel
William Domina

Reinhart, Boerner, Van Deuren s.c.
Milwaukee, Wisconsin

Foley & Lardner
Milwaukee, Wisconsin

Actuary:

Buck Consultants
Chicago, Illinois

Disbursing Agent:

County Treasurer

Custodian/Securities Agent:

BNY/Mellon Trust
Boston, Massachusetts

Medical Board:

Medical Associates

Investment Consultant:

William M. Mercer
Investment Consulting, Inc.
Chicago, Illinois

Cash Management Manager:

Mellon Trust
Boston, Massachusetts

Standish Mellon Asset Management
Woburn, Massachusetts

Venture Capital Investment Managers:

Adams Street Partners
Chicago, Illinois

Progress Investment Management Company
San Francisco, California

Equity Investment Managers:

AQR Capital Management, LLC
Greenwich, Connecticut

Barclay Global Investors
San Francisco, California

Artisan Partners
Milwaukee, Wisconsin

Boston Partners Asset Management, Inc.
Boston, Massachusetts

Earnest Partners, LLC
Atlanta, Georgia

Mellon Capital Management
Pittsburgh, Pennsylvania

Reinhart & Mahoney Capital Management
Mequon, Wisconsin

Westfield Capital Management Co., Inc.
Boston, Massachusetts

Fixed Income Investment Managers:

Loomis, Sayles & Company, Inc.
Boston, Massachusetts

JP Morgan Investment Management
New York, New York

Mellon Capital Management
Pittsburgh, Pennsylvania

International Investment Managers:

Baring Asset Management, Inc.
Boston, Massachusetts

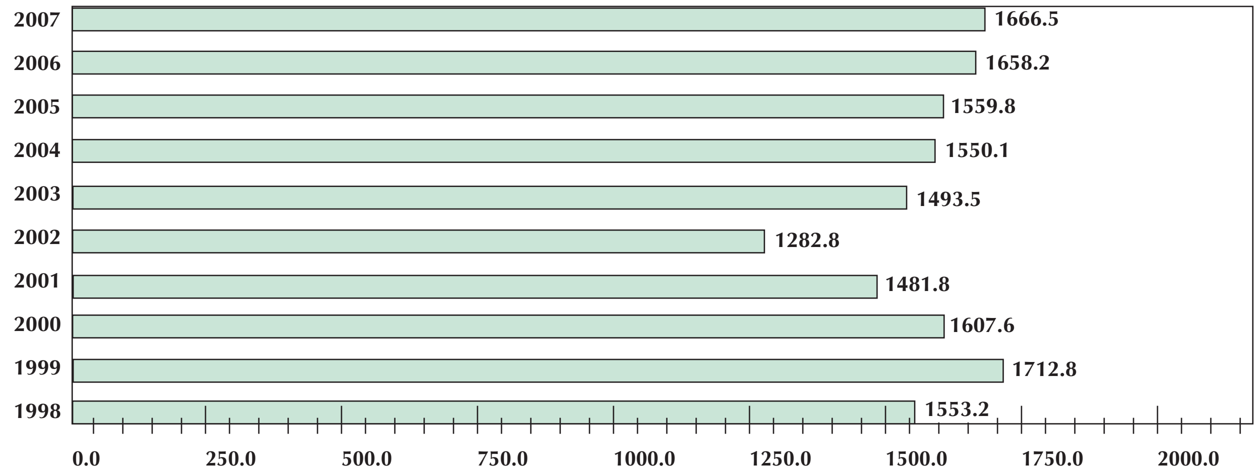
Capital Guardian Trust Company
Brea, California

Granthum, Mayo, Van Otterloo & Co.
Boston, Massachusetts

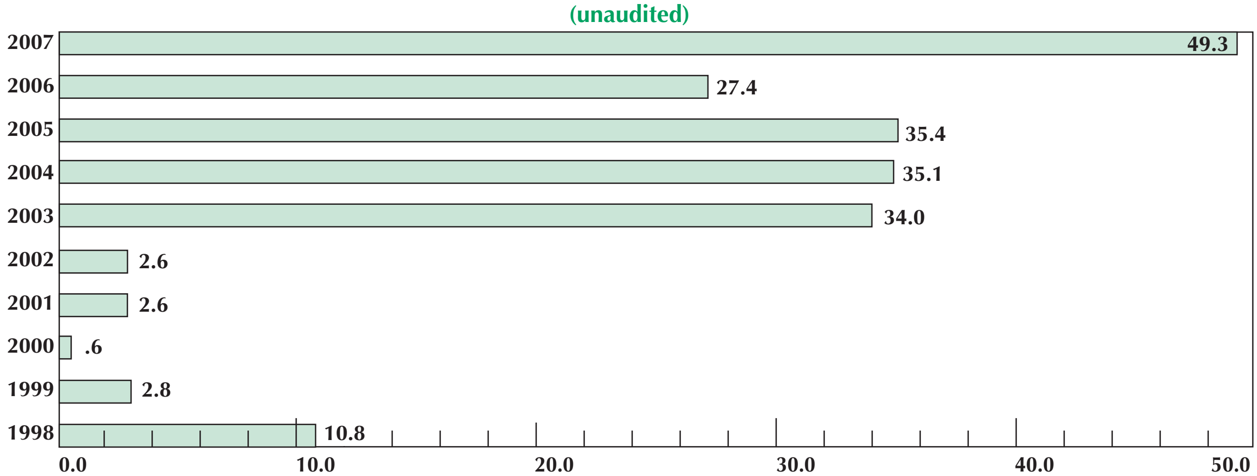
Real Estate Investment Trusts

ING Clarion Real Estate Securities
Radnor, Pennsylvania

NET FUND ASSETS
FAIR VALUES 2007-1998
(in millions of dollars)
(unaudited)



ACTUAL COUNTY CONTRIBUTIONS
(in millions of dollars)
(unaudited)



ACTIVE MEMBERSHIP STATISTICS (Unaudited)

	2007
Members as of January 1	**6,302***
Changes During the Year:	
New enrollments	**326**
Rehires	**-**
Nonvested terminations	**(126)**
Retirements	**(294)**
Deaths in active service	**(12)**
New deferred beneficiaries	**3**
Members as of December 31	**6,199***

**This total includes vested inactive members.*

RETIREMENTS AND SURVIVORS (Unaudited)

	Retirements Granted								Survivors & Beneficiaries	Total
	Maximum Pension	Option								
		Refund	100%	75%	50%	25%	10-yr.	Other		
January 1, 2007	2,769	666	1,186	166	1,164	263	94	42	949	7,299
Changes During the Year:										
Adjustments (actuary)*	(4)	1	5		2		2	(2)	21	25
Retirements	150	1	50	17	31	26	18	-	64	357
Pensioner deaths	(97)	(73)	(32)	(2)	(61)	(4)	(3)	(1)	(87)	(360)
December 31, 2007	2,818	595	1,209	181	1,136	285	111	39	947	7,321

*Adjustments as a result of reclassifications made to beginning balances by the actuary due to new information received.

Management's Discussion and Analysis
(In Thousands of Dollars)

Required supplementary information. The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status of the plan. These schedules provide historical trend information, which contributes to understanding the changes in the funded status of the plan over time.

Other supplementary schedules. The additional schedules (Ten-Year Historical Trend Information, Net Fund Assets, Actual County Contributions, Active Membership Statistics, Retirements and Survivors) are presented for the purpose of additional analysis.

COMPARATIVE FINANCIAL STATEMENTS

Retirement System's Net Assets	12/31/2007	12/31/2006	12/31/2005	Difference	% Change
Assets					
Cash and short-term investments	$17,292	$17,664	$8,704	$8,588	98.7%
Receivables	58,383	68,533	47,340	11,043	23.3%
Investments, at fair value	1,593,971	1,575,742	1,514,478	79,493	5.2%
Other assets	109,139	155,955	126,947	(17,808)	(14.0%)
Total Assets	1,778,785	1,817,894	1,697,469	81,316	4.8%
Liabilities					
Security lending obligations	105,540	153,669	126,947	(21,407)	(16.9%)
Other liabilities	6,734	6,029	10,745	(4,011)	(37.3%)
Total Liabilities	112,274	159,698	137,692	(25,418)	(18.5%)
Net assets available for benefits	$1,666,511	$1,658,196	$1,559,777	$106,734	6.8%

Retirement System's Changes in Net Assets	2007	2006	2005	Difference	% Change
Additions					
Employer contributions	$49,291	$27,435	$35,415	$13,876	39.2%
Member contributions	345	545	360	(15)	(4.2%)
Investment income (loss)	101,962	203,505	124,391	(22,429)	(18.0%)
Total Additions	151,598	231,485	160,166	(8,568)	(5.3%)
Deductions					
Benefit payments	(139,991)	(130,730)	(148,307)	8,316	(5.6%)
Administrative expenses	(3,235)	(2,322)	(2,157)	(1,078)	50.0%
Withdrawals	(57)	(14)	(37)	(20)	54.1%
Total Deductions	(143,283)	(133,066)	(150,501)	7,218	(4.8%)
Changes in net assets available for benefits	8,315	98,419	9,665	(1,350)	(14.0%)
Net assets held in trust for pension benefits:					
Beginning of year	1,658,196	1,559,777	1,550,112	108,084	7.0%
End of year	$1,666,511	$1,658,196	$1,559,777	$106,734	6.8%

Requests for financial information:

The financial report is designed to provide the Board of Trustees, our membership, taxpayers, investment managers and creditors with a general overview of ERS finances and to demonstrate ERS's accountability for the funds under its stewardship. Please address any questions about this report or requests for additional financial information to:

Milwaukee County ERS
901 N. 9th Street Room 210-C
Milwaukee, WI 53233

STATEMENTS OF PLAN NET ASSETS

	December 31, 2007	December 31, 2006
ASSETS:		
CASH AND CASH EQUIVALENTS	$ 17,292,321	$ 17,663,749
RECEIVABLES		
County of Milwaukee	49,794,000	27,864,524
Accrued interest and dividends	6,516,205	6,545,991
Miscellaneous receivables	1,451,001	1,174,763
Due from sale of investments	617,575	32,247,645
Receivable for foreign exchange contracts	3,793	699,610
TOTAL RECEIVABLES	58,382,574	68,532,533
INVESTMENTS AT FAIR VALUE		
Domestic common and preferred stocks	491,564,635	551,978,255
Corporate bonds and conv debentures	588,885,759	457,393,409
International common and preferred stocks	319,483,338	322,691,519
Real estate investment trusts	54,268,077	78,466,092
Federal agency and mortgage-backed certificates	52,943,515	52,817,050
US Government and state obligations	32,931,111	54,586,349
International fixed income	29,056,417	34,507,543
Venture capital	24,838,163	23,302,233
TOTAL INVESTMENTS	1,593,971,015	1,575,742,450
OTHER ASSETS		
Software development costs	3,599,137	2,285,552
Securities lending - collateral (See Note 5)	105,539,536	153,669,195
	109,138,673	155,954,747
TOTAL ASSETS	1,778,784,583	1,817,893,479
LIABILITIES:		
Securities lending - collateral (See Note 5)	105,539,536	153,669,195
Miscellaneous payables	3,107,136	3,251,973
Payable for securities purchased	2,266,104	797,830
Payable to OBRA Retirement Plan	1,356,836	1,260,931
Payable for foreign exchange contracts	3,807	717,751
TOTAL LIABILITIES	112,273,419	159,697,680
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$1,666,511,164	$1,658,195,799

(A schedule of funding progress is presented on page 16)

The accompanying notes are an integral part of these financial statements.

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE
(Unaudited)

Revenues by Source

Fiscal Year	Participant Contributions	County Contributions(1)	Investment Income (Loss)(2)	Total
2007	$344,782	$49,291,072	$106,442,068	$156,077,922
2006	545,258	27,435,154	207,804,929	235,785,341
2005	360,283	35,415,185	128,528,748	164,304,216
2004	711,322	35,143,178	188,633,703	224,488,203
2003	704,758	33,980,592	292,669,096	327,354,446
2002	436,682	2,579,984	(78,508,968)	(75,492,302)
2001	265,567	2,646,523	(28,309,035)	(25,396,945)
2000	180,729	629,279	(14,726,721)	(13,916,713)
1999	140,834	2,756,636	243,675,430	246,572,900
1998	156,915	10,816,807	120,415,049	131,388,771

Expenses by Type

Fiscal Year	Benefits(3)	Investment and Administrative Expenses(4)	Withdrawals	Total
2007	$139,990,962	$7,715,976	$56,626	$147,763,564
2006	130,730,539	6,622,923	13,571	137,367,033
2005	148,307,335	6,294,816	36,963	154,639,114
2004	161,368,700	6,302,951	154,522	167,826,173
2003	111,109,514	5,662,380	12,999	116,784,893
2002	118,078,160	5,301,678	30,230	123,410,068
2001	94,842,239	5,389,064	233,732	100,465,035
2000	85,664,789	5,320,195	257,600	91,242,584
1999	82,022,948	4,966,393	16,866	87,006,207
1998	79,261,523	4,913,214	50,504	84,225,241

FOOTNOTES ARE IN THOUSANDS OF DOLLARS:

(1) Contributions were made based upon actuarially determined contribution requirements, as well as additional contributions made at the discretion of the County Board.

(2) Includes interest and dividends, net appreciation (depreciation) of fair value, net security lending income, and other income.

(3) Included in the benefits for years 2007, 2006, 2005, 2004, 2003 and 2002 are drop-back lump-sum payments in the amount of $10.5, $5.5, $25.7, $51.0, $11.0 and $23.1 million, respectively.

(4) The increase in investment and administrative expenses of $2,803 during the past ten years were due to increases in the following expenses:

- legal and corporate counsel fees of $1,028 due to buyback/buyin issues, litigation expenses, tax issues and various other legal matters;
- outside consultants of $656 with most of the increase occurring in 2007 and 2006 as a result of work being done on the installation of a new pension mainframe software system, data and document cleansing in preparation to the conversion to the new software system and a new online document imaging system;
- investment manager, custodial and cash management fees of $615 due mainly to the growth in the size of the fund during the 10-year period;
- cost of fiduciary insurance of $330. This cost has declined considerably after peeking in 2004;
- salaries and wages of $245 due primarily to the increase in the cost of benefits;
- temporary help of $161 due to unfilled positions within the department and preparation of the file room for a new file numbering system and the imaging project;
- actuarial costs of $90 due in part to the completion of the 5 year experience analysis in 2007;

Most of the other expenses experienced small increases that were offset by an increase of administrative expenses assessed to the OBRA retirement system. Those administrative expenses are assessed in accordance with a predetermined formula that has been uniformly applied since the inception of the OBRA pension system.

Valuation date	1/1/08
Actuarial Cost Method	Aggregate Entry Age Normal
Amortization Method	Level percent of payroll, closed
Equivalent Single Amortization Period	19 years
Asset valuation method	5-year smoothing of difference between total expected return versus actual return
Actuarial Assumptions:	
Investment rate of return	8.0%
Projected payroll growth	3.5%
Mortality	Sex-distinct up – 1994 Mortality Table (for healthy pensioners) RP 2000 Disabled Mortality Table (for disabled pensioners)

(3) Significant Factors Affecting Trends in Actuarial Information –

2008 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Changed maximum period for backdrop period to earliest unreduced benefit.
- Increase annual compensation limit to $230,000.
- Increase annual benefit limit to $185,000.

2007 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Changed disability assumption from assuming 100% of disabilities are Ordinary to 10% Ordinary and 90% Accidental for represented employees and 95% Ordinary and 5% Accidental for non-represented employees.
- Changed the backdrop assumption from 70% of eligible employees elect a backdrop with an average backdrop period of four years to 75% of eligible employees elect a backdrop, where 75% are assumed to take the maximum period available to them and 25% take half the maximum period available.
- Increase annual compensation limit to $225,000.
- Increase annual benefit limit to $180,000.

2006 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase annual compensation limit to $220,000.
- Increase annual benefit limit to $175,000.
- Decrease in the discount rate to 8.0%.
- Increase in backdrop utilization assumption from 50% to 70%.

2005 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase annual compensation limit to $210,000.
- Increase annual benefit limit to $170,000.

2004 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase annual compensation limit to $205,000.
- Increase annual benefit limit to $165,000.
- Decrease in discount rate to 8.5%.
- The amortization period for plan amendments, assumption changes and actuarial experience was changed from 20 years to 30 years. Future plan and assumption changes, as well as, actuarial gains and losses will be amortized over 30 years from the date established.
- Changed from smoothing unrealized gains or losses to smoothing difference between total expected return versus actual return.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31, 2007	Year Ended December 31, 2006
ADDITIONS:		
CONTRIBUTIONS		
County of Milwaukee	**$ 49,291,072**	**$ 27,435,154**
Plan participants	**344,782**	**545,258**
	49,635,854	**27,980,412**
INVESTMENT INCOME (LOSS)		
Net appreciation in fair value	**71,245,245**	**173,518,439**
Interest and dividends	**33,474,501**	**33,341,386**
Security lending income	**7,353,616**	**6,834,982**
Other income	**1,310,088**	**662,683**
Total investment income	**113,383,450**	**214,357,490**
Less: Securities lending rebates and fees	**(6,940,375)**	**(6,552,561)**
Investment expense	**(4,481,151)**	**(4,300,731)**
Net investment income	**101,961,924**	**203,504,198**
TOTAL ADDITIONS	**151,597,778**	**231,484,610**
DEDUCTIONS:		
Benefits paid to retirees and beneficiaries	**(139,990,962)**	**(130,730,539)**
Administrative expenses	**(3,234,825)**	**(2,322,192)**
Withdrawal of membership accounts	**(56,626)**	**(13,571)**
TOTAL DEDUCTIONS	**(143,282,413)**	**(133,066,302)**
NET CHANGE IN PLAN NET ASSETS:	**8,315,365**	**98,418,308**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	**1,658,195,799**	**1,559,777,491**
End of year	**$1,666,511,164**	**$1,658,195,799**

The accompanying notes are an integral part of these financial statements.

(1) Description of Retirement System –

The following brief description of the provisions of the Employees' Retirement System of the County of Milwaukee ("ERS" or the "Retirement System") is provided for financial statement purposes only. Participants should refer to Section 201.24 of the General Ordinances of Milwaukee County and their respective bargaining agreement for more complete information.

The Retirement System is a single-employer plan that was created to encourage qualified personnel to enter and remain in the service of the County of Milwaukee (the "County") by providing for a system of retirement, disability and death benefits to or on behalf of its employees. Under Chapter 201 of the Laws of Wisconsin for 1937, the County was mandated to create the Retirement System as a separate legal entity. The County did so by passing Section 201.24 of the General Ordinance of Milwaukee County. The authority to manage and control the Retirement System is vested in the Pension Board. The Pension Board consists of nine members – three members appointed by the County Executive (subject to confirmation by the County Board of Supervisors), three employee members elected by the employee participants, two members appointed by the County Board chairperson and one retiree-elected member.

	As of December 31	
Participants –	2007	2006
Retiree and beneficiaries currently receiving benefits	7,321	7,299
Vested and terminated employees not yet receiving benefits	1,385	1,404
Current employees	4,814	4,898
Total participants	13,520	13,601

Contributions –

The Retirement System is substantially noncontributory. However, participants meeting certain criteria have the option to contribute to membership accounts. In addition, the County contributes to membership accounts of most employee participants enrolled prior to 1971. Member account balances are as follows:

	As of December 31	
	2007	2006
Membership accounts –		
Participants and County contributed	$ 3,090,757	$ 4,339,753
Voluntary savings accounts	1,312,129	1,152,214

Contributions due from the County to the Retirement System consist of amounts sufficient to fund the annual normal cost and interest on and amortization of the unfunded or overfunded actuarial accrued liability. A substantial portion of the current year's contribution is paid to the Retirement System in the following year.

The County makes contributions to the Retirement System based upon the Annual Required Contribution (ARC) and legal requirements, at the discretion of the County Board. An actuary hired by the Pension Board establishes the ARC. Data used in the determination of the ARC is based upon the prior fiscal year's demographics. The actual contribution made to the pension plans is set during the County's budget process and may differ from the ARC as a result of changes in plan provisions implemented subsequent to establishment of the ARC and budgetary restraints. During the year, the Retirement System accrues those contributions that the County has included in its current year's budget. For 2007 and 2006, the County contribution recorded by the Retirement System was $3,104,191 and $25,203,042 less than the ARC for 2007 and 2006, respectively.

Benefits –

The normal retirement benefit is a monthly pension for the life of the participant beginning at normal retirement age. For deputy sheriff participants with less than 15 years of service, the normal retirement age is 57 or age 55 and 15 years of service. For all other participants the normal retirement age is 60, although some labor agreements require a minimum of 5 years creditable service at age 60. Active participants are also eligible to retire when their age added to their years of service equals 75. The County Ordinance and Labor Agreements require an employee to be a member prior to a stated date in order to qualify for the "rule of 75." The normal retirement benefit payable to a participant whose membership began prior to January 1, 1982, is equal to 2.5% for deputy sheriffs and elected officials, and 2% for all other participants, of the participant's three-year final average monthly salary, as defined in the Ordinance and labor agreements as the three highest consecutive years, multiplied by the number of years of credited service. The amount of normal

Required Supplementary Information

Schedule of Funding Progress
(in thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability– AAL (b)	Funded ratio (a/b)	(Overfunded) Unfunded AAL– (UAAL) (b-a)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
12/31/07	$1,627,288	$2,024,923	80.4%	$397,635	$227,364	174.9%
12/31/06	1,525,532	1,931,220	79.0%	405,688	223,005	181.9%
12/31/05	1,454,302	1,909,321	76.2%	455,019	225,722	201.6%
12/31/04	1,424,918	1,782,884	79.9%	357,966	209,796	170.6%
12/31/03	1,446,726	1,707,999	84.7%	261,273	233,478	111.9%
12/31/02	1,446,860	1,542,045	93.8%	95,185	234,679	40.6%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded (overfunded) actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the Retirement System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Retirement System. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids the analysis of the Retirement System's progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, or the larger the percentage, if negative, the stronger the Retirement System.

Schedule of Employer Contributions for the Year Ended December 31,

Fiscal Year	Annual Required Contribution (ARC)	Percentage Contributed
2007	$52,395,263	94.1%
2006	52,638,196	52.1%
2005	37,607,940	94.2%
2004	33,248,204	105.7%
2003	25,242,325	134.6%
2002	8,528,477	30.3%

Notes to Required Supplementary Information

(1) Description –

The historical trend information is presented as required supplementary information. This information is intended to help users assess the Retirement System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

(2) Actuarial Assumptions and Methods –

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 2008, for the plan year ending December 31, 2007. The actuarial valuations consider the changes effective January 1, 2008. Additional information as of the latest actuarial valuation follows:

Retirement System are legally available to pay benefits of either the ERS or OBRA and all assets have been commingled, the Retirement System is considered a single plan for financial reporting purposes. Net assets identified for OBRA benefits as of December 31, 2007 and 2006, were as follows:

	(Unaudited)	
	2007	**2006**
Assets		
Cash	$ 2,031	$ 654
Contributions receivable from County	529,000	462,000
Assets held by Retirement System	823,774	805,242
Total assets	$1,354,805	$1,267,896
Liabilities		
Taxes payable	$ -	$ 6,965
Total liabilities	-	6,965
Net assets available for benefits	$1,354,805	$1,260,931

Changes in net assets available for benefits for OBRA for the years ended December 31, 2007 and 2006, were as follows:

	(Unaudited)	
	2007	**2006**
Contributions from County	$529,000	$462,000
Investment income	68,780	117,675
Investment and administrative expenses	(449,781)	(300,185)
Benefits paid	(54,125)	(108,964)
Net increase in assets available for benefits	$93,874	$170,526

As of December 31, 2007 and 2006, respectively, there were 10,143 and 9,643 participants with vested benefits in OBRA. The actuarial accrued liability of OBRA at December 31, 2007 and 2006, was $4,076,739 and $3,842,625, respectively, leaving net assets available less than the actuarial accrued liability of ($2,721,934) and ($2,581,694), respectively. These amounts are not reflected in the required supplementary information tables that follow the notes to the financial statements.

retirement benefits payable for a participant whose membership began after January 1, 1982 is as follows: 2.5% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired before July 1, 1995; 2% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired after June 30, 1995; 2% for elected officials; 2% for firefighters and non-represented firefighters beginning January 1, 1999; and 1.5% for all other participants, of the participant's five-year final average monthly salary, as defined in the Ordinance and labor agreements, multiplied by the number of years of credited service. Each year after retirement, the amount of monthly benefit is increased by an amount equal to 2% of the benefit paid for the first full month of retirement. The maximum benefit, excluding any post-retirement increases, payable to a participant cannot exceed the sum of 80% of the participant's final average monthly salary.

As of January 1, 2001, certain plan changes became effective, except for represented deputy sheriffs. These changes are noted below:

- The County will pay the accrued sick allowance in full upon retirement for those participants hired prior to January 1, 1994. Previously, a member received both a cash payment from the County and pension service credit for a portion of the accrued sick allowance. The full payout of the sick allowance has subsequently been amended to a partial payout with various effective dates and payout percentages for the non-represented employees and each of the unions but no service credit is granted.
- A bonus of 7.5% per year, up to a maximum of 25%, is added to the final average salary for those employees whose membership in the Employee's Retirement System began before January 1, 1982, or July 1, 1995 for a non-represented Deputy Sheriff.
- All service credit earned after January 1, 2001 is credited with an additional .5% multiplier for those employees whose membership in the Employee's Retirement System began after December 31, 1981, or June 30, 1995 for a non-represented Deputy Sheriff. Also, for each year of pension service earned after January 1, 2001, eight (8) years of service earned prior to January 1, 2001 shall be credited with an additional .5% multiplier.
- A "back drop" payment option was established that permits an employee to receive a lump-sum cash payment and a monthly pension benefit upon retirement. The lump-sum cash payment is the total of the monthly pension benefits, adjusted for COLA increases, that a member would be entitled to from a prior date (back drop date) to the date that the member terminates employment plus compounded interest. The back drop date must be at least one year prior to the termination date and the member must have been eligible to retire as of that date. The member will be entitled to a COLA adjusted monthly pension benefit based on the back drop date once the member terminates employment.
- A participant is vested upon attaining 5 years of creditable pension service.

The following changes were made effective as of the stated dates:

- Non-represented employees and elected officials hired on or after March 15, 2002 are not eligible to receive the drop back pension benefit. Employees represented by a labor agreement must also be hired prior to the date specified in the labor agreement to be eligible to receive the the drop back benefit.
- Individuals elected after March 15, 2002 are not eligible to receive the additional .5% pension benefit multiplier.
- Effective January 1, 2003, the pension benefit for employees who became members after December 31, 1981 shall be based upon a final average salary equal to the three highest consecutive years of earnings instead of the five highest consecutive years of earnings, except for represented sheriffs.

A participant who meets the requirements for an accidental or ordinary disability benefit is entitled to an amount equal to the normal retirement benefit, but not less than 60% of a participant's final average salary for accidental disability. Fifteen years of credited service is required to apply for ordinary disability.

A represented deputy sheriff whose membership began prior to January 1, 1982 is vested upon attaining six years of creditable pension service. A represented deputy sheriff whose membership began after December 31, 1981 is vested upon attaining ten years of creditable pension service.

Most participants are immediately vested upon attaining age 60. A vested participant is eligible for a deferred pension beginning as of the member's normal retirement date.

A participant who is 55 years of age and has 15 years of credited service may elect to receive early reduced retirement benefits. The participant would be entitled to a benefit equal to the normal retirement benefit with a lifetime reduction of 5% for each year prior to the normal retirement date.

Upon the death of an employee participant and usually after one year of service, which varies by labor agreement, a spouse with one dependent child, as defined in the Ordinance, will receive 40% of the deceased participant's salary, reduced by an amount equal to Social Security benefits payable to the spouse.

An additional 10% of salary, reduced by Social Security benefits, is paid for each dependent child. The total benefit, if there are more than five eligible children, generally cannot exceed 90% of the prior salary level. The total benefit includes Social Security benefits. Upon attaining age 60, the spouse will receive 50% of the normal retirement benefit based upon service projected to age 60 of the employee participant. If there is no spouse or child, the death benefit payable to a designated beneficiary is equal to 50% of the deceased participant's final average salary, but not to exceed $2,000. Deputy sheriffs are covered by special provisions if their death occurs as a result of an accident in actual performance of duty.

A participant who attains eligibility for normal retirement benefit may elect a protective survivorship option of 100% or 50% (discussed below). In the absence of an election, a surviving spouse will be paid a survivorship pension of 100%. For a survivorship pension to be paid to a designated beneficiary, other than a surviving spouse, election must be filed in writing on a form prescribed by the Pension Board.

Currently, employee participants may choose between several options when retiring. The available options are:

– Maximum This option is a pension benefit that is payable over the life of the participant and ceases upon the participant's death;

– Membership Account Refund This option is an actuarially reduced pension benefit that ceases upon the death of the participant. This option, however, guarantees that the participant will receive the total balance in his/her Membership Account as of the retirement date. The Membership Account balance is reduced each month by an actuarial determined amount. Any balance remaining upon the participant's death will be paid to the participant's beneficiary. Generally, only participants hired prior to 1971 have a Membership Account and, therefore, are the only employees eligible for this option;

– 25% This option is an actuarially reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 25% of the pension benefit is payable over the life of a named beneficiary, if living;

– 50% This option is an actuarially reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 50% of the pension benefit is payable over the life of a named beneficiary, if living;

– 75% This option is an actuarially reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 75% of the pension benefit is payable over the life of a named beneficiary, if living;

– 100% This option is an actuarially reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 100% of the pension benefit is payable over the life of a named beneficiary, if living;

– 10-Year Certain This option is an actuarially reduced pension benefit payable over the life of the participant but is guaranteed for a period of 10 years, in the event that the participant should die within 10 years after the retirement date.

– Board Discretion This option is at the discretion of the Pension Board and is the payment of a benefit in a form other than those set forth above provided that payments in such other form shall be the actuarial equivalent of the benefit otherwise payable. The Pension Board assesses an administrative charge for each calculation performed under this option.

Benefits of $140.0 million and $130.7 million were paid in 2007 and 2006, respectively, including periodic pension benefit payments of $129.5 million and $125.2 million respectively and dropback lump-sum pension benefit payments of $10.5 million and $5.5 million in 2007 and 2006, respectively.

(2) Summary of Significant Accounting Policies:

Basis of Accounting –

The accompanying financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred.

Investments –

Investments, primarily stocks, bonds, certain government loans and mortgage-backed certificates, are stated at quoted fair value. Temporary cash investments are valued at cost, which approximates fair value. Investments in venture capital partnerships are valued at estimated fair value, as provided by the Retirement System's venture capital investment manager. Investment transactions are recorded on the trade date. Realized gains and losses are computed based on the average cost method.

Security Lending –

The Retirement System participates in a security-lending program for the lending of corporate bonds, equity and government securities to qualified brokers. Collateral received for securities loaned consists primarily of cash. Other forms of collateral are letters of credit and government agency securities. Collateral for domestic issues is set at 102% of the fair value of the securities loaned at the time of the initial transaction. If the value falls to 100% of the fair value of the securities loaned, additional collateral is obtained to reestablish collateral at 102% of the fair value of the securities loaned. Collateral for international securities is maintained at a level of 105% of the fair value of securities loaned at all times. The net investment income earned on collateral is divided between the custodian, as a fee for its services under the program, and the Retirement System, according to agreed upon rates. For 2007 and 2006, the net investment income realized from security lending was $413,241 and $282,421, respectively.

Securities loaned and the collateral held were as follows: (amounts are in thousands of dollars)

	As of December 31	
	2007	2006
Fair Value of Securities Loaned:	$111,038	$154,351
Fair Value of Collateral:	$113,823	$159,323
Percentage Collateral to Securities Loaned:	102.51%	103.22%

The collateral received from security lending transactions are recorded as assets at quoted fair value of the financial statement date. The Retirement System records an identical amount as a liability, representing the obligation of the Retirement System to return the collateral at the time the borrower of the Retirement System's securities return those securities.

The collateral received from securities lending transactions includes cash of $105,539 and $153,669 and U.S. Treasury securities of $8,284 and $5,654 for the years ended December 31, 2007 and 2006, respectively. Under the terms of the securities lending agreement, the Retirement System has the right to sell or pledge the cash collateral. The non-cash collateral in the amount of $8,284 and $5,654 for the years ended December 31, 2007 and 2006, respectively, is controlled by the custodian and, correspondingly, is not reflected in the Statement of Net Assets Available for Plan Benefits.

At year-end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. The contract with the Retirement System's custodian requires it to indemnify the Retirement System if a borrower fails to return the securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan.

(6) Financial Instruments With Off-Balance Sheet Risks –

A currency forward is a contractual agreement between two parties to pay or receive amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are entered into with the foreign exchange department of a bank located in a major money market. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuations. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the Retirement System records the amount receivable or payable at fair value, with the unrealized gain or loss reported as a component of net appreciation in fair value.

There were no unrealized losses on forward foreign exchange contracts at year-end 2007. As of 12/31/06 there were $18,140 of unrealized losses. At year-end 2007, the Retirement System held only $3.7 in forward foreign exchange contracts.

(7) Commitments and Contingencies –

The Retirement System is involved in litigation and certain other disputes arising during the normal course of operations. Management does not believe the settlement of such matters will have a material impact on the Retirement System's financial statements.

(8) OBRA 1990 Retirement System of the County of Milwaukee –

The County established the OBRA 1990 Retirement System of the County of Milwaukee (OBRA) to cover seasonal and certain temporary employees who are not enrolled in the Retirement System. Assets of the OBRA are commingled for investment purposes with the assets of the Retirement System. As the assets of the

Currency Unit	Fixed Income Incl Conv Deb	Cash and Cash Equivalents	Total
Austrailian Dollar	$ 1,682	$ -	$ 1,682
Brazilian Real	1,455	-	1,455
British Pound Sterling	-	4	4
Canadian Dollar	4,273	-	4,273
Danish Krone	-	-	-
Euro Currency Unit	-	4	4
Hong Kong Dollar	-	-	-
Iceland Krona	1,909	-	1,909
Japanese Yen	-	-	-
Mexican New Peso	2,747	-	2,747
Norwegian Krone	-	-	-
S. African Comm Rand	-	-	-
Singapore Dollar	2,378	-	2,378
South Korean Won	1,624	-	1,624
Swedish Krona	-	-	-
Swiss Franc	-	-	-
Thailand Baht	1,413	-	1,413
Totals	**$17,481**	**$ 8**	**$17,489**

Interest Rate Risk –

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The Option-Adjusted Duration method of measuring duration takes into effect the embedded options on cash flows.

The Retirement System does not have a formal investment policy that limits investment maturities as a means of managing exposure to losses arising from increasing interest rates with the exception of the cash equivalent portfolio. The investment policy limits the duration of individual securities held in the cash equivalent portfolio to 2.5 years. In addition, the duration of the entire cash equivalent portfolio should be between 1 and 2 years.

As of December 31,2007, the Retirement System had the following Option-Adjusted Durations for the fixed income investments: (amounts are in thousands of dollars)

Fixed Income Sector	Fair Value	Option-Adjusted Duration (in years)
Asset Backed Securities	$ 8,480	2.65
CM Backed Securities	4,888	3.65
CMO Corporate	11,700	2.57
CMO Government Agencies	28,237	4.72
Corporate	175,715	6.49
Energy	1,744	0.61
Financials	500	(3.43)
Government	35,973	8.53
Health Care	2,535	1.51
Information Technology	3,493	2.02
Other	54,017	0.08
U.S. Convertibles	692	3.95
U.S. Gov't Mortgages	18,395	3.82
U.S. Private Placements	8,368	5.42
U.S. Taxable Muni Bonds	1,272	8.66
Non U.S.	17,481	2.89
Other *	347,617	N/A
Totals	**$721,107**	

* Includes $345,310 invested in bond mutual funds for which the duration was not available.

A summary of investments at cost is as follows:

	As of December 31	
	2007	2006
Domestic common and preferred stocks	$ 398,470,064	$ 444,920,083
Corporate bonds	541,390,270	424,038,834
International common and preferred stocks	286,326,052	251,987,550
Fed agency and mortgage backed certificates	52,058,659	53,598,289
International fixed income	24,490,775	29,083,622
US Government and state obligations	31,097,175	54,500,055
Real estate investment trusts	50,924,947	51,110,931
Venture capital	24,018,122	26,269,992
Cash and cash equivalents	17,292,205	17,587,478
Total investments at cost	$1,426,068,269	$1,353,096,834

Valuation of International Securities –

Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

Expenses –

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $915,868 and $988,048 in 2007 and 2006, respectively.

Use of Estimates –

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Income taxes –

Management has submitted to the Internal Revenue Service, as part of a Voluntary Compliance Program, any compliance issues that have been discovered through a self-administered review where the provisions contained in the Internal Revenue Code, the County Pension Ordinances or Pension Rules differ from actual practice. Management is waiting for a response from the Internal Revenue Service regarding what action will be required to bring the pension system into compliance in all of its practices in order to maintain its tax-qualified status.

(4) Contributions Required and Contributions Made –

The Retirement System's funding policy provides for periodic County contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Payroll contribution rates are determined using the Aggregate Entry Age Normal method of funding. The Retirement System also uses the level percentage of payroll method to amortize the unfunded liability over a 30 year period in 2007. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.

County contributions totaling $49,291,072 and $27,435,154 were recorded in 2007 and 2006, respectively. The 2007 and 2006 contributions were less than the total Actuarial Required Contribution (ARC) using the Aggregate Entry Age Normal method of funding with normal cost computed as a level percentage of pay. See the Schedule of Employer Contributions in the Required Supplementary Information. The County's contributions to the Retirement System were 21.7% and 12.3% of annual covered payroll for 2007 and 2006, respectively.

The 2007 and 2006 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2006 and 2005. These amounts were included in the County's 2007 and 2006 budgets. The Retirement System's financial statements as of December 31, 2007 and 2006 reflected the unpaid portion of the 2007 and 2006 contributions as a contribution receivable.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0%, compounded annually in 2007 and 2006, (b) projected payroll growth increases averaging 3.5% per year compounded annually in 2007 and 2006, attributed to inflation, seniority and merit, and (c) post-retirement benefit increases of 2.0% per year for both 2007 and 2006.

(5) Deposit and Investment Risk Disclosure –

As provided by state legislative act and County Ordinance, the Retirement System's Board has exclusive control and management responsibility of the Retirement System's funds and full power to invest the funds. In exercising its fiduciary responsibility, the Board is governed by the "prudent person" rule in establishing investment policy. The "prudent person" rule, requires the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to permanent disposition of their funds, considering the probable income as well as the probable safety of the principal. The Board has adopted a Statement of Investment Policy to formally document investment objectives and responsibilities. This policy establishes guidelines for permissible investments of the Retirement System. The Retirement System's investments are subject to various risks. Among them are credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each of these risks is discussed in more detail below.

Concentration of Credit Risk –

Concentration of credit risk is a risk of loss that may be attributed to the magnitude of the Retirement System’s investment in a single issuer, generally inivestments in any one issuer that represents five (5) percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this definition. The Retirement System has no investments in one issuer other than U.S. Government securities and mutual funds that exceed five (5) percent of the total investments.

Credit Risk –

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services (Moody's), Standard and Poor (S & P) and Fitch Ratings (Fitch’s). With the exception of the Loomis Sayles - High Yield and the MCM Aggregate Bond portfolios, bonds purchased and owned in each portfolio must have a minimum quality rating of Baa3 (Moody's) or BBB- (S & P or Fitch's). The average quality of each portfolio must be A or better. For Loomis Sayles - High Yield, bonds must have a minimum quality rating of B3 (Moody's) or B- (S & P or Fitch's) at the time of purchase. The fixed income securities for the MCM Aggregate Bond portfolio should have a minimum quality rating of A, with the exception of 15% of the portfolio which may have a minimum quality rating of BBB. The credit quality ratings of investments in fixed income securities by Moody’s a nationally recognized statistical rating agencies as of December 31, 2007 are as follows: (amounts are in thousands of dollars)

Moody’s Quality Ratings	Fair Value
AAA	$ 26,115
AA1	3,848
AA2	3,004
AA3	2,407
A1	8,849
A2	45,020
A3	7,898
BAA1	16,672
BAA2	19,980
BAA3	32,189
BA1	15,598
BA2	14,715
BA3	12,084
B1	19,731
B2	5,584
B3	4,266
CAA1	14,290
NR	20,382
Total Credit Risk Fixed Income Securities	**$272,632**
U.S. Government and Agencies	85,875
Mutual Funds (Not Rated)	345,310
Total Investment in fixed income	**$703,817**

The Loomis Sayles High Yield portfolio holds all investments with a rating less than Baa3, except for the following securities that have an average rating of Ba1

- securities in the amount of $6,234,958 held by the Loomis Sayles Investment Grade portfolio.

Custodial Credit Risk – Deposits and Investments

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the Retirement System will not be able to recover the value of its deposits, investments or securities. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the Retirement System's name and are held by the counterparty.

No formal policy exists on custodial risk. However, substantially all assets of the Retirement Syatem are held in its name. Repurchase agreements held by the Retirement System are essentially collateralized overnight loans, with the securities held by Wells Fargo, the counterparty, as collateral. These securities are held by Wells Fargo but not in the name of the Retirement System. As of December 31, 2007, the underlying collateral for the Retirement System's repurchase agreements in the amount of $3,667,204 was exposed to custodial risk as it was held outside the name of the trust.

As of December 31, 2007, all deposits with banks are fully insured by the Federal Depository Insurance Corporation or the State Deposit Guarantee Fund.

The following table presents the Retirement System's total cash, deposits and cash equivalents as of December 31, 2007: (amounts are in thousands of dollars)

Schedule of Cash and Cash Equivalent Investments

	Carrying Value	Bank Balance
Cash held by various investment managers	$ 3,853	$ 3,852
Deposits with banks	452	459
Foreign currency	8	8
Repurchase agreement	--	3,667
Money market deposits	12,979	12,979
Total Deposits	$17,292	$20,965

The difference between the carrying value and bank balances are due to outstanding checks and deposits not yet processed by the bank. Deposits in excess of a predetermined amount are maintained in overnight repurchase agreements and transferred to a bank checking account as checks are presented for payment.

Foreign Currency Risk –

Foreign currency is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or deposit.

The Retirement Systems exposure to foreign currency risk derives from its positions in foreign currency denominated international equity and fixed income investments. Its exposure to foreign currency as of December 31, 2007 is as follows: (amounts are in thousands of dollars)